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Annual Report

FOR THE YEAR
ENDED
DECEMBER 31

1946

UNITED CIGAR-WHELAN STORES
CORPORATION

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UNITED CIGAR-WHELAN STORES CORPORATION

EXECUTIVE OFFICES • 215 FOURTH AVENUE, NEW YORK 3, N. Y.

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DIRECTORS

JOSEPH I. LUBIN, Chairman of the Board
Partner, EISNER & LUBIN, New York, N. Y.

DAVID G. BAIRD,
Vice President, Marsh & McLennan, Inc.,
New York, N. Y.

HUGH B. BAKER,
Partner, Baker, Weeks & Harden, New York, N. Y.

WALTER G. BAUMHOGGER,
President, United Cigar-Whelan Stores Corporation,
New York, N. Y.

HENRY C. BRUNIE,
President, Empire Trust Company, New York, N. Y.

KENNETH J. HANAU,
Executive Vice President and Treasurer, Wagner
Baking Corporation, Newark, N. J.

FRANK M. HEAD,
Vice President and General Merchandise Manager,
United Cigar-Whelan Stores Corporation,
New York, N. Y.

HOULDER HUDGINS,
President, Sloane-Blabon Corporation,
New York, N. Y.

HARRY RUBENOFF,
Vice President and General Counsel,
United Cigar-Whelan Stores Corporation,
New York, N. Y.

B. A. TOMPKINS,
Director and Vice President, Bankers Trust
Company, New York, N. Y.

DALLAS S. TOWNSEND,
Partner, Townsend & Lewis, New York, N. Y.

JOHN WHITNEY,
Partner, Riter & Co., New York, N. Y.

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OFFICERS

WALTER G. BAUMHOGGER, President

JOHN D. BRUCE, Vice President

HARRY M. CHICHESTER, Vice President

EDWARD E. CODY, Vice President and Treasurer

HERMAN H. GOLDSTEIN, Vice President

EMILE E. GRIGNARD, Vice President

FRANK M. HEAD, Vice President

HARRY RUBENOFF, Vice President

A. HERBERT SMITH, Vice President

HAROLD W. JACOBSEN, Secretary

PAUL OLSEN, Comptroller,
Assistant Secretary and Assistant Treasurer

UNITED CIGAR-WHELAN STORES CORPORATION

Annual Report

April 11, 1947

To the Stockholders of

UNITED CIGAR-WHELAN STORES CORPORATION:

A consolidated balance sheet, showing the financial position of the Corporation and its subsidiaries at December 31, 1946, and related statements of profit and loss and surplus, together with the certificate of Messrs. Price, Waterhouse & Co., independent public accountants, are presented herewith. Comparative figures for the year 1945 have been included in the financial statements.

Comparisons of sales and profits transferred to earned surplus for the years 1945 and 1946 are shown below:

	Sales volume	Profit transferred to earned surplus
1945	$67,017,545	$1,879,121
1946	79,288,902	2,204,268

The profit transferred to earned surplus includes transfers of $275,000 in 1945 and $312,500 in 1946 from the reserve for wartime and postwar contingencies.

Working capital at December 31, 1946 amounted to $15,289,129, an improvement of $4,917,309 over the working capital of $10,371,820 at December 31, 1945.

The year 1946, for your Corporation, was one of refinancing, expansion, and rehabilitation.

I — REFINANCING

On June 13, 1946, the Corporation sold 400,000 shares of its authorized, unissued Common Stock, for which it received a net price of approximately $12.54 per share, or a total of $5,017,297.

Stockholders of the Corporation, on June 24, 1946, approved an amendment to the Corporation's charter creating a new class of preferred stock consisting of 50,000 shares of Convertible Preferred Stock, par value $100 per share, entitled to cumulative dividends at the rate of $3.50 per share per annum. Holders of the Corporation's Prior Preferred Stock

were given the right to exchange their holdings for the new Convertible Preferred Stock at the rate of four shares of Prior Preferred Stock for one share of the Convertible Preferred Stock. All unexchanged shares were redeemed.

The completion of this refinancing resulted in the addition of approximately $2,722,000 to the Corporation's treasury.

The authorized shares of the Corporation now consist of the aforementioned 50,000 shares of Convertible Preferred Stock and 3,000,000 shares of Common Stock. The respective amounts of the shares outstanding are reflected in the balance sheet herewith.

During 1946, the Corporation also refunded its bank loans by the issuance of $8,000,000 of promissory notes to the Bankers Trust Company and Metropolitan Life Insurance Company, maturing each year for a period of fifteen years. This refunding provided additional cash amounting to approximately $4,786,800.

The additional cash acquired by the Corporation as a result of these transactions is being used in the Corporation's program of expansion, modernization and enlargement of existing stores, and for other general corporate purposes. (In 1946, your Corporation invested a substantial amount in the growth of the business: i.e., in the purchase of new stores, the opening of additional stores, the enlargement and modernization of existing stores, and the additional merchandise inventories required for the larger volume of business that was transacted.)

II — Expansion & Rehabilitation

During 1946, the Corporation acquired the Dade Pharmacy chain of fourteen stores in the Miami, Florida area, and the Mid-City chain of eleven stores in the Los Angeles, California area, both of which have been integrated into the Corporation's operations. In addition, eleven new Whelan Stores were opened during the year; seven existing stores were enlarged; twenty-six existing stores were completely remodeled; and an additional substantial number of stores were partially remodeled.

It is anticipated that a number of additional new stores will be opened by the Corporation in 1947.

III — Personnel

At a meeting of the Board of Directors on September 6, 1946, I submitted and the Board approved, an Employees' Retirement Plan, to become effective on January 1, 1947, wherein it is provided that employees upon reaching the age of 65 will be retired. Employees who have had a minimum of five years' continuous service with the Corporation will receive a retirement allowance based on the number of years service at the time of retirement. The

employees of the Corporation were so advised on November 21, 1946. This, I feel, is a step in the right direction, and I hope that continuing prosperity of the Corporation will enable us to replace this temporary retirement plan with an adequate pension plan.

I referred in my last annual report to a plan for the sale of a limited number of shares of the Corporation's authorized, unissued Common Stock, on an instalment basis, to a number of officers and key employees, which plan was approved by the stockholders at the annual meeting on May 15, 1946. Prior to this meeting the Treasury Department issued Treasury Decision 5507 which, if applicable to this plan, might materially increase the tax liability of officers and employees over their tax liability under the plan prior to the issuance of this Treasury Decision. On August 26, 1946 the Treasury Department ruled that the Treasury Decision in question did apply to said plan, and because of this ruling the Board of Directors, having previously suspended operation of the plan pending the ruling, authorized the cancellation of the plan and, subject to the approval of the stockholders at the meeting to be held May 21, 1947, authorized the return of the first instalment payment made by the officers and employees.

IV — Conclusion

On behalf of the Board of Directors, I wish to commend the entire staff for their fine work during these past difficult years and to express the hope for a continuation of their excellent spirit and cooperation in the future.

Walter G. Baumhogger,
President.

* * *

ANNUAL MEETING

Pursuant to the By-Laws of the Corporation, the Annual Meeting of Stockholders will be held on May 21, 1947. Accompanying this Annual Report and enclosed herewith to Common Stockholders is the Notice of such Annual Meeting, together with the proxy statement and form of proxy.

PRICE, WATERHOUSE & CO.

56 Pine Street,
New York 5, N. Y.
April 4, 1947

To the Board of Directors of
UNITED CIGAR-WHELAN STORES CORPORATION:

We have examined the consolidated balance sheet of United Cigar-Whelan Stores Corporation and its subsidiary companies as of December 31, 1946 and the related consolidated statements of profit and loss and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances, and included such tests of the accounting records and other supporting evidence and such other procedures as we considered necessary.

In our opinion, the accompanying financial statements present fairly the position of the company and its subsidiary companies at December 31, 1946, and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE, WATERHOUSE & CO.

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 1946 AND 1945

UNITED CIGAR-WHELAN STORES CORPORATION AND SUBSIDIARY COMPANIES

ASSETS

	December 31, 1946	1945
CURRENT ASSETS:		
Cash	$ 4,295,237	$ 3,342,042
United States Government securities, at cost (quoted market value December 31, 1946, $903,700)	907,526	102,300
Accounts receivable, less reserve	1,868,604	1,124,577
Inventories of merchandise and supplies, at cost or market whichever is lower	14,750,672	9,948,338
Merchandise inventories with agents	506,700	491,900
Total current assets	22,328,739	15,009,157
MISCELLANEOUS INVESTMENTS, at or below cost	85,240	62,482
FIXED ASSETS, at cost or less:		
Land	677,935	—
Buildings	150,500	13,750
Furniture, fixtures and equipment (includes approximately $1,425,000 on which the reserve for depreciation is equal to the asset)	4,967,612	4,063,642
	5,796,047	4,077,392
Less—Reserves for depreciation	2,671,658	2,533,071
	3,124,389	1,544,321
Improvements to leaseholds, less amortization	1,938,137	1,060,706
Construction in progress	1,118,312	257,928
Total fixed assets	6,180,838	2,862,955
DEFERRED CHARGES:		
Prepaid rents, insurance, taxes, etc.	309,293	296,078
GOODWILL, at cost less amortization	822,084	—
Total Assets	$29,726,194	$18,230,672

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 1946 AND 1945

UNITED CIGAR-WHELAN STORES CORPORATION AND SUBSIDIARY COMPANIES

LIABILITIES AND CAPITAL

	December 31, 1946	1945
CURRENT LIABILITIES:		
Accounts payable	$ 3,619,790	$ 2,568,705
Dividends payable on preferred stock	42,556	89,318
Taxes accrued and withheld	824,395	632,082
Accrued compensation and other current and accrued liabilities	1,389,897	1,088,954
Provision for federal taxes on income (Note B)	1,359,972	1,048,278
Less—United States treasury savings notes, Series C	(455,000)	(950,000)
Note payable and mortgage payment due within one year	258,000	160,000
Total current liabilities	7,039,610	4,637,337
LONG-TERM DEBT:		
Notes payable, 2½%, $250,000 due each January and May 1948-1953	2,750,000	3,045,000
Notes payable, 3½%, due 1953-1961	5,000,000	—
Mortgage payable, 3½%, due 1948-1952	172,845	—
Total long-term debt	7,922,845	3,045,000
RESERVE FOR WARTIME AND POSTWAR CONTINGENCIES (Note A)	212,500	525,000
CAPITAL STOCK AND SURPLUS (Notes C and D):		
Prior Preferred Stock	—	5,762,440
Convertible Preferred Stock:		
Authorized and issued—50,000 shares, par value $100 a share, $3.50 dividend cumulative	5,000,000	—
Common Stock:		
Authorized—3,000,000 shares, par value 30¢ a share		
Issued—2,307,308 shares (1946); 1,907,308 shares (1945)	692,192	572,192
Paid-in surplus	4,897,297	—
Capital surplus	—	172,364
Earned surplus since July 1, 1939	4,088,757	3,517,582
Less—Treasury stock, at cost—1,367 shares Convertible Preferred Stock $125,764 and 4,144 shares Common Stock $1,243	(127,007)	(1,243)
Total capital stock and surplus	14,551,239	10,023,335
Total Liabilities and Capital	$29,726,194	$18,230,672

The accompanying notes to consolidated financial statements should be read in conjunction with the above balance sheets.

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

FOR THE YEARS 1946 AND 1945

UNITED CIGAR-WHELAN STORES CORPORATION AND SUBSIDIARY COMPANIES

	1946	*1945*
Net sales	$79,288,902	$67,017,545
Cost of sales	56,786,871	48,092,964
	22,502,031	18,924,581
Display advertising, sundry commissions, etc.	1,857,486	1,568,712
Rentals and other income	585,094	450,020
Profit from sale of investment in subsidiary company	—	86,089
	24,944,611	21,029,402
Salaries, wages and other compensation	12,359,141	9,936,997
Rent expense	4,009,204	3,548,472
Taxes, other than taxes on income	751,264	725,659
Depreciation and amortization	671,486	565,071
Other operating and administrative expenses	3,854,685	3,486,640
Interest on long-term debt	100,942	90,649
Other charges	131,121	71,793
	21,877,843	18,425,281
	3,066,768	2,604,121
Provision for estimated taxes on income (Note B):		
Federal taxes on income	1,155,000	980,000
State income taxes	20,000	20,000
	1,175,000	1,000,000
	1,891,768	1,604,121
Transfer from reserve for wartime and postwar contingencies (Note A)	312,500	275,000
Profit transferred to earned surplus (Note A)	$ 2,204,268	$ 1,879,121

The accompanying notes to consolidated financial statements should be read in conjunction with the above statement of profit and loss.

CONSOLIDATED STATEMENT OF SURPLUS

FOR THE YEARS 1946 AND 1945

UNITED CIGAR-WHELAN STORES CORPORATION AND SUBSIDIARY COMPANIES

EARNED SURPLUS SINCE JULY 1, 1939

	1946	*1945*
Balance at beginning of year	$3,517,582	$2,687,196
Add: Profit transferred from Consolidated Statement of Profit and Loss	2,204,268	1,879,121
	5,721,850	4,566,317
Deduct:		
Charges arising from issuing Prior Preferred Stock in exchange for Cumulative Five Dollar Preferred Stock	—	442,206
Excess of par value of 40,399 shares of Convertible Preferred Stock issued over the par value of 161,596 shares of Prior Preferred Stock received for exchange (Note C)	807,980	—
Excess of redemption value of 126,526 shares of Prior Preferred Stock over the par value thereof, less $172,364 charged to capital surplus (Note C)	507,081	—
Expenses of issuing Convertible Preferred Stock	92,040	—
Dividends on Cumulative Five Dollar Preferred Stock	—	263,349
Dividends on Prior Preferred Stock	104,318	343,180
Dividends on Convertible Preferred Stock, $2.62½ a share	121,674	—
	1,633,093	1,048,735
Balance at end of year (Note D)	$4,088,757	$3,517,582

CAPITAL SURPLUS

Balance at beginning of year	$ 172,364	$ 317,413
Deduct:		
Charges arising from redemption of Cumulative Five Dollar Preferred Stock $131,575 and other capital adjustments (net)	—	145,049
Portion of excess of redemption value of Prior Preferred Stock over par value thereof (balance of such excess charged to earned surplus above)	172,364	—
Balance at end of year	—	$ 172,364

PAID-IN SURPLUS

Excess of net proceeds of sale of 400,000 shares of Common Stock over the par value thereof	$4,897,297

The accompanying notes to consolidated financial statements should be read in conjunction with the above statement of surplus.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

UNITED CIGAR-WHELAN STORES CORPORATION AND SUBSIDIARY COMPANIES

NOTE A:

A reserve for wartime and postwar contingencies, aggregating $800,000, was created by charges to profit and loss during the years 1942 to 1944, inclusive, for expenses and losses which might arise because of the hazards of operating under wartime conditions and for possible expenses and losses incident to the transition from wartime to peacetime operations. An amount of $275,000 was transferred from the reserve to profit and loss in 1945 and the Board of Directors has authorized the transfer to profit and loss of $312,500 in 1946 and the balance of $212,500 in 1947. The transfer in 1946 includes $100,000 to offset a provision charged to operations in that year for retirement allowances to employees who reached retirement age on or before December 31, 1945 but whose retirement was deferred because of the wartime scarcity of skilled personnel. With respect to the transfer of the remainder of the reserve at the rate of $212,500 in each of the years 1946 and 1947, segregation in the accounts of other costs, expenses and losses of the type for which the reserve was created has not been practicable nor is it possible to make a reliable estimate of the amount of such items since they arise from indirect as well as direct influences of the war period. However, the corporation's operations for 1946 were affected by conditions arising out of the war and management anticipates that there will be a further period of transition extending into 1947 and that economic and other dislocations which are the aftermath of the war will affect operations in 1947 to approximately the same extent as in 1946.

Transfers from the reserve for wartime and postwar contingencies do not represent taxable income nor were the provisions creating such reserve in prior years deductible for tax purposes.

NOTE B:

The amount of $1,359,972 shown on the balance sheet at December 31, 1946 as provision for federal taxes on income is subject to adjustment upon examination by the Treasury Department of the companies' tax returns for 1945 and 1946; the companies' tax returns for 1944 and prior years have been examined and the additional taxes determined by the Treasury Department have been paid. The computations of the provisions for 1945 and 1946 are based on estimated taxable net income and generally follow the determinations used by the Treasury Department in computing the tax liabilities of the companies for prior years.

NOTE C:

In 1946, pursuant to a financing program authorized by the Board of Directors, the corporation (1) sold by public offering 400,000 shares of Common Stock and 9,601 shares of Convertible Preferred Stock, (2) issued 40,399 shares of Convertible Preferred Stock in exchange for 161,596 shares of Prior Preferred Stock and (3) deposited cash with the redemption agent on July 19, 1946 to cover the remaining 126,526 shares of Prior Preferred Stock which were called for redemption.

The Convertible Preferred Stock is entitled in liquidation to and is redeemable in whole or in part upon 30 days' notice at $107 a share during 1947, and at an amount 50c less per share cumulative for and during each of the thirteen years 1948 to 1960, and thereafter at $100 a share plus, in each case, accrued dividends to the date of redemption or liquidation. Each share of Convertible Preferred Stock is exchangeable for Common Stock at the following rates: 5½ shares of Common Stock, if exchanged on or before June 30, 1948; 5 shares of Common Stock, if exchanged during the period July 1, 1948 to June 30, 1950; and 4 shares of Common Stock, if exchanged after June 30, 1950.

NOTE D:

At December 31, 1946 the difference between the involuntary liquidating value of $5,203,731 of the Convertible Preferred Stock outstanding (excluding Treasury stock) and the par value of such stock amounted to $340,431. In the opinion of counsel for the corporation the right to the difference between the par value of the Convertible Preferred Stock and such liquidation preference is not a restriction upon the distribution of surplus as dividends.

The corporation's loan agreement covering notes payable provides, among other restrictions and limitations, that the corporation will not declare or pay dividends (other than dividends payable in its Common Stock) or purchase or redeem any of its outstanding capital stock if: (1) the total disbursements for such dividends, purchases or redemptions will exceed $250,000 plus 60% of consolidated net earnings of the corporation and its subsidiaries accruing subsequent to December 31, 1945, and (2) immediately thereafter, and as a result thereof, consolidated current assets will be less than 133% of consolidated indebtedness. Under the foregoing provisions, the paid-in surplus of $4,897,297 and approximately $2,917,000 of the consolidated earned surplus of $4,088,757 at December 31, 1946 may not be used in the payment of dividends (other than dividends payable in its Common Stock) or for the purchase or redemption of any outstanding capital stock of the corporation.

NOTE E:

Information with respect to the acquisition of two groups of stores during the year 1946 is contained in the accompanying letter to stockholders. Goodwill of $845,000 purchased in connection with these acquisitions is being amortized at a rate of 5% per annum.

NOTE F:

The corporation's commitments for construction work and purchase of equipment amounted to approximately $600,000 at December 31, 1946.

The Whelan Creed

This Creed is on display in every Whelan Drug Store. All Whelan employees are required to conform to the provisions of the Creed.

1. Quality – All merchandise handled by Whelan Drug Stores must be of a quality that is acceptable to Whelan's Bureau of Standards. (Whelan's Bureau of Standards is a modern, well-equipped testing laboratory. It inspects and tests samples of all merchandise shipments received at Whelan's central Depot.)

2. Prices – Whelan's selling prices are intended to be the lowest possible prices that can result from Whelan's huge purchasing power and mass distribution methods.

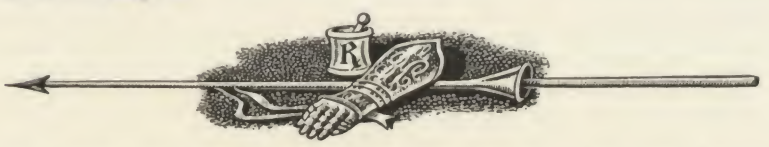
3. Service – The Whelan organization is instructed to give to Whelan customers the kind of service that builds lasting customer-satisfaction – and is taught how to do so. It is instructed to be courteous and friendly in its dealings with customers. It is instructed always to describe merchandise honestly and never to make exaggerated claims or statements.

NO SUBSTITUTES – The Whelan Management will not tolerate any attempt at substitution. Our Policy is to give the customer what he asks for. Any deviation of this rule is a violation of the Company's Policy. The Whelan organization is instructed to give customers timely and helpful suggestions, but never to substitute any item for the one requested.

4. Guarantee – Whelan's guarantee is that the customer must always be satisfied, and that in the event of dissatisfaction for any reason whatsoever, the purchase price will be refunded cheerfully and without question or argument.

5. Professional Ethics – In its drug and prescription departments, Whelan employs only graduate pharmacists who have been licensed by the State Boards of Pharmacy. Whelan, therefore, maintains the highest possible code of professional ethics in the compounding of prescriptions and the selling of antitoxins, biologicals, etc.

6. Employees – The Whelan Management attempts to provide for Whelan Employees standards of wages and working conditions that are at least the equal of the best in the drug store industry. It is only by maintaining such standards that Whelan is able to have an organization that is capable of serving its customers in the manner that the Whelan Management insists upon.



We believe that drug stores, more, perhaps, than any other type of retail store, make an important contribution to community life in America. Drug stores, among the other services that they offer the public, are of great assistance to the medical profession in maintaining proper public health requirements. We are proud of the fact that we are in the drug store business. We are proud of the fact that we are among the leaders in our industry. It is our ambition to serve the public in such a manner that we shall be deserving of its confidence, and, therefore, of its patronage. This is *the essence* of THE WHELAN CREED.

Home Office

215 Fourth Avenue — New York 3, N. Y.

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Branch Offices and Warehouses

82 39th Street, Bush Terminal Bldg. No. 22	Brooklyn 32, N. Y.
5000 District Boulevard	Los Angeles 11, Cal.
696 N. W. 15th Street	Miami 36, Fla.
327 So. La Salle Street	Chicago 4, Ill.

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Transfer Agents

Convertible Preferred Stock and Common Stock

Empire Trust Company, New York, N. Y.

Convertible Preferred Stock and Common Stock

Registrar and Transfer Company, Jersey City, N. J.

Registrars

Convertible Preferred Stock and Common Stock

Bankers Trust Company, New York, N. Y.

Common Stock

Commercial Trust Company of New Jersey, Jersey City, N. J.